

Subsidiary constitute a "reorganization", and that as a result, no gain or loss will be recognized by the corporate parties including Arch and Merger Subsidiary. Merger Subsidiary's tax basis for the assets of Communications received in the Merger will be the same as the basis for such assets in the hands of Communications immediately before the Merger (which would reflect any decrease in such basis resulting from the cancellation of the Debtors' indebtedness), and Merger Subsidiary's holding period for such assets will include the period such assets were held by Communications. Arch will not recognize any gain upon the issuance of its stock or the Rights pursuant to the Merger Agreement. Based upon the treatment of the Rights as consideration provided pursuant to a "reorganization" under section 368(a)(2)(D) of the Tax Code, Arch's tax basis for the stock of Merger Subsidiary will be equal to the basis of the assets of Merger Subsidiary received in the Merger reduced by the amount of liabilities, if any, to which such assets are subject and increased by the amount of cash and Arch's tax basis for any property contributed to Merger Subsidiary prior to the Merger and not distributed to creditors of the Debtors pursuant to the Plan. No assurance can be given, however, that the IRS will agree with such treatment of the Rights. Arch will not recognize any gain upon the issuance of the Arch Stockholder Rights or the Arch Participation Warrants to its shareholders pursuant to the Plan and the Merger Agreement.

D. Federal Income Tax Consequences to Holders of Claims and Interests

1. Allowed Claims in Class 1, Class 2 and Class 3.

Payment in satisfaction of Allowed Claims in Class 1, Class 2 and Class 3 may result in income to a holder of such a Claim to the extent that the holder has not already accrued the amount of the Claim as income. A holder who reduced the amount of its Claim to an amount less than the amount already included in its income may incur a loss upon satisfaction of such Claim under the Plan to the extent a bad debt deduction (or an addition to a bad debt reserve) was not previously claimed with respect to such reduction.

2. Allowed Class 4 Claims and Class 5 Claims.

A holder of an Allowed Claim in Class 4 or Class 5 will recognize ordinary interest income to the extent that the amount received is allocable to unpaid interest that has accrued on or after the beginning of the holder's holding period and was not previously included in income, and will recognize ordinary income to the extent, if any, of the reimbursement for any costs, fees and charges which such a holder previously deducted. No income is realized from a payment attributable to unpaid interest that was previously included in income. A holder will recognize an ordinary loss to the extent any accrued interest claimed was previously included in its gross income and not paid in full. In addition, such a holder will recognize gain or loss upon implementation of the Plan equal to the difference between (x) the amount of cash received in exchange for its Claim (other than a Claim for unpaid interest accrued on or after the beginning of the holder's holding period or costs, fees or charges which such a holder previously deducted) and (y) such holder's adjusted tax basis in its Claim (not attributable to a claim for accrued interest).

The character of any gain or loss recognized as long-term or short-term capital gain or loss or as ordinary income or loss will be determined by a number of factors, including the tax status of the holder, whether the Claim constitutes a capital asset in the hands of the holder, whether the Claim has been held for more than 12 months, whether the Claim was purchased at a discount, and whether and to what extent the holder has previously claimed a bad debt deduction. In this regard, section 582(c) of the Tax Code provides that the sale or exchange of a bond, debenture, note, certificate or other evidence of indebtedness by certain financial institutions will be considered the sale or exchange of a non-capital asset. Accordingly, any gain or loss recognized by such financial institutions as a result of the implementation of the Plan will be ordinary gain or loss, regardless of the nature of their Claims.

### 3. Allowed Class 6 Claims.

The federal income tax consequences of the Plan to a holder of an Allowed Claim in Class 6 that will receive Arch Capital Shares pursuant to the Plan (*i.e.*, excluding those holders of relatively small claims that elect to receive cash under the Plan) will depend, in part, on whether such holder's claim constitutes a "security" of Communications for federal income tax purposes. The term "security" is not defined in the Tax Code or in the Treasury regulations issued thereunder and has not been clearly defined by judicial decisions. In general, a debt instrument with a maturity in excess of 10 years is a security for federal income tax purposes and a debt instrument with a maturity of less than 5 years is not a security; there is, however, no clear legal standard determining whether a particular obligation is a security, and holders should consult their tax advisors as to whether a particular debt instrument or Claim constitutes a security for federal income tax purposes.

All holders of Allowed Claims in Class 6, whether or not their Claims constitute "securities" for federal income tax purposes, will recognize ordinary interest income to the extent that the amount received is allocable to unpaid interest that has accrued on or after the beginning of the holder's holding period and was not previously included in income, and will recognize ordinary income to the extent, if any, of the reimbursement for any costs, fees and charges that such holder previously deducted. No income is realized from a payment attributable to unpaid interest that was previously included in income.

(a) *Holders of Claims not Constituting "Securities".* A holder of an Allowed Claim in Class 6 that does not constitute a "security" for federal income tax purposes will recognize an ordinary loss to the extent any accrued interest claimed was previously included in its gross income and is not paid in full. In addition, a holder of an Allowed Claim in Class 6 will recognize gain or loss upon implementation of the Plan equal to the difference between (x) the "amount realized" in respect of the holder's Claim (other than a Claim for unpaid interest accrued on or after the beginning of the holder's holding period or costs, fees or charges which such a holder previously deducted) and (y) such holder's adjusted tax basis in its Claim (not attributable to a Claim for accrued interest). In the case of a holder that elects to receive cash consideration, the "amount realized" in respect of such Claim will equal the amount of such cash. In the case of

a holder that does not elect to receive cash consideration, the "amount realized" in respect of such Claim will equal the sum of (i) the fair market value of the Rights, (ii) the fair market value of the Arch Capital Shares and (iii) the fair market value of any other property received in exchange for the Claim. Pending litigation relating to certain Notes may affect the ability of a holder of such a Note to deduct currently loss recognized with respect to such Note as a result of the implementation of the Plan. Each holder should consult with its own tax advisor.

The character of any gain or loss recognized as long-term or short-term capital gain or loss or as ordinary income or loss will be determined by a number of factors, including the tax status of the holder, whether the Claim constitutes a capital asset in the hands of the holder, whether the Claim has been held for more than 12 months, whether the Claim was purchased at a discount, and whether and to what extent the holder has previously claimed a bad debt deduction. In this regard, section 582(c) of the Tax Code provides that the sale or exchange of a bond, debenture, note, certificate or other evidence of indebtedness by certain financial institutions will be considered the sale or exchange of a non-capital asset. Accordingly, any gain or loss recognized by such financial institutions as a result of the implementation of the Plan will be ordinary gain or loss, regardless of the nature of their Claims.

(b) *Holders of Claims Constituting "Securities"*. It is intended that the holders of Allowed Claims in Class 6 that constitute "securities" for federal income tax purposes be treated as having such Claims satisfied pursuant to a "reorganization" qualifying under section 368(a)(2)(D) of the Tax Code. However, the Debtors have not requested a ruling from the IRS and have not obtained an opinion of counsel as to the federal income tax treatment of the Plan, and no assurance can be given that the IRS will agree with such treatment. Holders should consult their tax advisors regarding the federal income tax consequences of any alternative characterization. In addition, different considerations may apply to Standby Purchasers that purchase Units pursuant to their Standby Purchase Commitments. Such holders should consult with their own tax advisors.

The remainder of this Section (b) describes the federal income tax consequences of treatment of the satisfaction of the Allowed Claims as a "reorganization" under section 368(a) of the Tax Code. A holder of a Claim that constitutes a "security" will not recognize loss on the exchange of its Claim for consideration other than ordinary loss to the extent of any accrued interest claimed that was previously included in its gross income with respect to which consideration is not received. However, such holder will recognize gain (computed as described in section (a) immediately above), if any, but only to the extent of any consideration other than Arch Capital Shares or Rights received in satisfaction of its Claim.

A holder's tax basis in Arch Capital Shares or Rights received that are allocable to accrued interest not previously included in income or to expenses previously deducted will be equal to their fair market value on the Effective Date. A holder's aggregate tax basis in all other Arch Capital Shares and Rights received in satisfaction of its Claim will equal the holder's adjusted tax basis in its Claim (including any claim for accrued interest previously included in income), decreased by the sum of (i) the cash and fair market value of any other property

received and (ii) the amount of any loss recognized in respect of its Claim for accrued interest previously included in income that is not satisfied, and increased by the amount of any gain recognized in respect of its Claim (which does not include interest income and income relating to reimbursement). This aggregate tax basis will be allocated in proportion to the fair market values of each class of Arch Capital Shares and the Rights received as of the Effective Date. A holder's tax basis in any other property received in satisfaction of its Claim will equal the fair market value of such property. A holder's holding period for the Arch Capital Shares and Rights received will include the holder's holding period for the Claim, except to the extent that such stock or stock rights were issued in respect of a claim for accrued interest not previously included in income or as reimbursement for costs, fees or charges which the holder previously deducted. A holder's holding period for any other property issued in exchange for a Claim, including Arch Capital Shares and Rights issued in respect of a claim for accrued interest not previously included in income or for reimbursement of previously deducted costs, will begin on the day after the issuance thereof.

With respect to a holder of a Claim that constitutes a "security" and has accrued market discount, regulations are expected to be promulgated by the Treasury Department pursuant to which any accrued market discount not treated as ordinary income upon any exchange of the Claim will carry over to the Arch Capital Shares and Rights received in exchange therefor. If such regulations are promulgated and applicable to the Plan, any gain recognized by such holder upon a subsequent disposition of such consideration received in exchange for its Claim would be treated as ordinary income to the extent of any accrued market discount with respect to such Claim not previously included in income. In general, a debt instrument will have accrued "market discount" if such debt instrument was acquired after its original issuance at a discount to its adjusted issue price.

Standby Purchasers that receive Arch Warrants or Arch Participation Warrants in connection with their Standby Purchase Commitments should consult with their own tax advisors regarding the tax consequences of the receipt of such Arch Warrants or Arch Participation Warrants.

(c) *The Rights.* A holder of an Allowed Claim in Class 6, whether or not such Claim constitutes a "security" for federal income tax purposes, will have a tax basis in the Arch Capital Shares and Arch Warrants received upon its exercise of Rights received in satisfaction of its Claim, equal to the sum of (i) its basis in the Rights and (ii) the exercise price of such Rights, and will have a holding period in such Arch Capital Shares and, if applicable, Arch Warrants that begins on the date of exercise. A holder that fails to exercise its Rights prior to their expiration will be treated as having sold or exchanged the Rights on the date of expiration, and accordingly, will recognize loss equal to the holder's tax basis in the Rights on the date of their expiration. Such loss will be a capital loss if the Arch Capital Shares and, if applicable, Arch Warrants would have been capital assets in the hands of the holder, and will be short-term or long-term capital loss depending on the holder's holding period for the expired Rights. Different considerations may apply to Standby Purchasers that purchase Units pursuant to their Standby Purchase Commitments. See Section (b) above.

#### 4. Class 8 Claims and Interests.

A holder of a Class 8 Claim related to the Common Stock will recognize a loss as of the Effective Date for federal income tax purposes in an amount equal to such holder's adjusted basis in the stock. Any such loss generally will be a capital loss if the holder held its Claim as a capital asset on the Effective Date. With respect to holders other than corporate taxpayers, the determination of whether such capital loss would be short-term or long-term will depend upon the holder's holding period for the Common Stock as of the Effective Date. With respect to taxpayers other than corporate taxpayers, capital losses for a particular tax year are allowed as a deduction for federal income tax purposes to the extent of such taxpayer's capital gains for such tax year, plus \$3,000. Excess capital losses may be carried over by noncorporate taxpayers to succeeding tax years and are allowed as a deduction for federal income tax purposes in a particular succeeding tax year to the extent of such taxpayer's capital gains for such succeeding tax year, plus \$3,000. With respect to corporate taxpayers, capital losses may be deducted only to the extent of capital gains. Corporate taxpayers generally may carry back net capital losses to each of the three years preceding the year in which such capital losses arise; any excess capital losses may be carried forward by a corporate taxpayer to five years following the tax year in which such capital losses arise. Pending litigation relating to the Common Stock may affect the ability of the holder of the stock to deduct currently loss recognized with respect to the stock as a result of the implementation of the Plan. A holder of Common Stock should consult with its own tax advisor.

All other holders of Claims in Class 8 should consult with their own tax advisors regarding the tax consequences to them of the treatment of such Claims under the Plan.

##### E. Withholding

All distributions to holders of Allowed Claims under the Plan are subject to any applicable withholding. Under federal income tax law, interest, dividends and other reportable payments may, under certain circumstances, be subject to "backup withholding" at a 31% rate. Backup withholding generally applies if the holder (i) fails to furnish his or her social security number or other taxpayer identification number ("TIN"), (ii) furnishes an incorrect TIN and the payor is so notified by the IRS, (iii) fails to report properly interest or dividends, or (iv) under certain circumstances, fails to provide a certified statement, signed under penalty of perjury, that the TIN provided is its correct number and that it is not subject to backup withholding. Backup withholding is not an additional tax. Rather, any amounts withheld from a payment to a holder under the backup withholding rules are allowed as a refund or a credit against such holder's federal income tax, provided that the required information is furnished to the IRS. Certain persons are exempt from backup withholding, including, in certain circumstances, corporations and financial institutions. Holders should consult their tax advisors regarding the application of backup withholding to their particular situations, the availability of an exemption therefrom and the procedure for obtaining such an exemption, if available.

## VII. FEASIBILITY OF THE PLAN

Pursuant to section 1129(a)(11) of the Code, among other things, the Bankruptcy Court must determine that confirmation of a plan of reorganization is not likely to be followed by the liquidation or need for further financial reorganization of the Debtors or any successors to the Debtors under the Plan. The Debtors believe that the Merger with Arch embodied in the Plan satisfies this requirement.

The creditors of the Debtors will be receiving cash on the Effective Date or equity securities (or the right to purchase equity securities) of Arch. Arch has already secured the necessary commitments (each of which is subject to certain contingencies) from its lenders and from the Standby Purchasers to provide the funds necessary to consummate the transactions embodied in the Plan and the Merger Agreement.

The Debtors' and Arch's combined pro forma projected results of operations, balance sheets and statements of cash flow are attached hereto as Exhibit E and demonstrate that confirmation of the Plan will not likely be followed by the need to further reorganize or liquidate the Reorganized Debtors. The projections attached hereto as Exhibit E were prepared by Arch and the Debtors as described therein and below. Moreover, the assumptions used in preparing the projections are subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond the Debtors' and Arch's control. There generally will be a difference between projections of future performance and actual results because certain events and circumstances may not occur as expected. These differences could be material. While the Debtors believe the projections presented in Exhibit E are reasonable, there can be no assurance that such projections will be realized. Consequently, the projections included therein should not be regarded as a representation by the Debtors, Arch or their respective advisors or any other person that the projected results will be achieved. In considering the projections attached hereto and contained herein, holders of Claims and Interests should be mindful of the inherent risk in developing projections for the future, particularly given the rapidly developing technological field in which Arch and the Reorganized Debtors will conduct their business.

## VIII. CONDITIONS PRECEDENT TO CONFIRMATION OF THE PLAN UNDER THE CODE

### A. The Confirmation Hearing and Objections

In order for the Plan to be consummated, the Bankruptcy Court must confirm the Plan in accordance with section 1129 of the Code. The Bankruptcy Court has scheduled a hearing on confirmation of the Plan (the "Confirmation Hearing") at \_\_\_\_\_.m., on \_\_\_\_\_, 1998, before the Honorable Peter J. Walsh, United States Bankruptcy Judge, 824 N. Market Street, Wilmington, Delaware. The Confirmation Hearing may be adjourned from time to time without further notice except for the announcement of such adjournment by the Bankruptcy Court at such hearing.

Section 1128(b) of the Code provides that any party in interest may object to confirmation of a plan. Pursuant to the Disclosure Statement Approval Order attached hereto as Exhibit C, any objections to confirmation of the Plan must be in writing, must set forth the objecting party's standing to assert such objection and the basis of such objection and must be filed with the Bankruptcy Court and served upon the United States Trustee for the District of Delaware, counsel for the Debtors, counsel for the Committee, counsel for the Pre-Petition Agent and the DIP Agent, and counsel for Arch, together with proof of such service, so as to be received on or before \_\_\_\_\_.m. on \_\_\_\_\_, 1998

Objections to confirmation are governed by Bankruptcy Rule 9014 and the Disclosure Statement Approval Order. PURSUANT TO ORDER OF THE BANKRUPTCY COURT, UNLESS A WRITTEN OBJECTION TO CONFIRMATION IS DULY AND TIMELY FILED, THE BANKRUPTCY COURT IS NOT REQUIRED TO CONSIDER SUCH OBJECTION.

B. Confirmation Requirements

In order for a plan of reorganization to be confirmed, the Code requires, among other things, that such plan be proposed in good faith, that the proponent of such plan disclose specified information concerning payments made or promised to insiders and that such plan comply with the applicable provisions of chapter 11 of the Code. Section 1129(a) of the Code also imposes requirements that each dissenting member of a class receive at least as much under the plan as it would receive in a chapter 7 liquidation of the debtor, that at least one class of impaired claims has accepted the plan, that confirmation of the plan is not likely to be followed by the need for further financial reorganization and that the plan is "fair and equitable" with respect to each class of claims or interests that is impaired under the plan and fails to accept the Plan by the required majorities. The bankruptcy court will confirm a plan only if it finds that all of the applicable requirements enumerated in section 1129(a) of the Code have been met or, if all of the requirements of section 1129(a) other than the requirements of section 1129(a)(8) have been met (*i.e.*, that all impaired classes have accepted the plan), that all of the applicable requirements enumerated in section 1129(b) of the Code have been met.

Section 1129(a) provides that:

1. The plan must comply with the applicable provisions of the Code.
2. The proponent of the plan must comply with the applicable provisions of the Code.
3. The plan must be proposed in good faith and not by any means forbidden by law.
4. Any payment made or to be made by the proponent, by the debtor or by a

person issuing securities or acquiring property under the plan, for services or for costs and expenses in or in connection with the case, or in connection with the plan and incident to the case, must have been approved by, or be subject to the approval of, the court as reasonable.

5. The proponent of the plan must disclose the identity and affiliations of any individual proposed to serve, after confirmation of the plan, as a director, officer or voting trustee of the debtor, an affiliate of the debtor participating in a joint plan with the debtor or a successor to the debtor under the plan; and

(a) the appointment to, or continuance in, such office of such individual must be consistent with the interests of creditors and equity security holders and with public policy; and

(b) the proponent of the plan must disclose the identity of any insider that will be employed or retained by the reorganized debtor, and the nature of any compensation for such insider.

6. Any governmental regulatory commission with jurisdiction, after confirmation of the plan, over the rates of the debtor must have approved any rate change provided for in the plan, or such rate change must be expressly conditioned on such approval.

7. With respect to each impaired class of claims or interests

(a) each holder of a claim or interest of such class

(i) must have accepted the plan; or

(ii) must receive or retain under the plan on account of such claim or interest property of a value, as of the effective date of the plan, that is not less than the amount that such holder would receive or retain if the debtor were liquidated under chapter 7 of the Code on such date; or

(b) if section 1111(b)(2) of the Code applies to the claims of such class, each holder of a claim of such class must receive or retain under the plan on account of such claim property of a value, as of the effective date of the plan, that is not less than the value of such holder's interest in the estate's interest in the property that secures such claim.

8. With respect to each class of claims or interests

(a) such class must have accepted the plan; or

(b) such class must not be impaired under the plan.



9. Except to the extent that the holder of a particular claim has agreed to a different treatment of such claim, the plan must provide that

(a) with respect to a claim of a kind specified in section 507(a)(1) or 507(a)(2) of the Code, on the effective date of the plan, the holder of such claim will receive on account of such claim cash equal to the allowed amount of such claim;

(b) with respect to a class of claims of a kind specified in section 507(a)(3), 507(a)(4), 507(a)(5), 507(a)(6) and 507(a)(7) of the Code, each holder of a claim of such class will receive

(i) if such class has accepted the plan, deferred cash payments of a value, as of the effective date of the plan, equal to the allowed amount of such claim; or

(ii) if such class has not accepted the plan, cash on the effective date of the plan equal to the allowed amount of such claim; and

(c) with respect to a claim of a kind specified in section 507(a)(8) of the Code, the holder of such claim must receive on account of such claim deferred cash payments, over a period not exceeding six years after the date of assessment of such claim, of a value, as of the effective date of the plan, equal to the allowed amount of such claim.

10. If a class of claims is impaired under the plan, at least one class of claims that is impaired under the plan must have accepted the plan, determined without including any acceptance of the plan by any insider.

11. Confirmation of the plan must not be likely to be followed by the liquidation, or the need for further financial reorganization, of the debtor or any successor to the debtor under the plan, unless such liquidation or reorganization is proposed in the plan.

12. All fees payable under section 1930 of title 28, as determined by the court at the hearing on confirmation of the plan, must have been paid or the plan must provide for the payment of all such fees on the effective date of the plan.

13. The plan must provide for the continuation after its effective date of payment of all retiree benefits, as that term is defined in section 1114 of the Code, at the level established pursuant to subsection (e)(1)(B) or (g) of section 1114 of the Code, at any time prior to confirmation of the plan, for the duration of the period the debtor has obligated itself to provide such benefits.

Section 5.3 of the Plan provides that because Classes 7, 8 and 9 are deemed not to have accepted the Plan pursuant to section 1126(g) of the Code, as to such Classes and any other Class that votes to reject the Plan, the Debtors are seeking confirmation of the Plan in accordance with section 1129(b) of the Code either under the terms provided herein or upon such terms as may exist if the Plan is modified in accordance with section 1127(d) of the Code. Section 5.3 of the Plan further provides that in the event Class 4 votes to reject this Plan, the Debtors, the Committee and Arch each reserves the right to contest all or any portion of the amount of the Allowed Class 4 Claims as set forth in Section 2.6(B) of the Plan.

THE DEBTORS BELIEVE THAT THE PLAN SATISFIES OR WILL SATISFY, AS OF THE CONFIRMATION DATE, ALL OF THE REQUIREMENTS FOR CONFIRMATION.

C. Satisfaction of Conditions Precedent to Confirmation Under the Code

1. Best Interests Test.

Section 1129(a)(7) of the Code requires, with respect to each impaired class, that each holder of an allowed claim or interest in such class either (a) has accepted the plan or (b) will receive or retain under the plan on account of such claim or interest property of a value, as of the effective date of such plan, that is not less than the amount that such person would receive or retain if the debtor were liquidated under chapter 7 of the Code on the effective date. This is the so-called "best interests test". This test considers, hypothetically, the fair salable value of a debtor's assets through liquidation in a chapter 7 bankruptcy proceeding and the costs that would be incurred and the additional liabilities that would arise in such proceeding. The hypothetical chapter 7 return to creditors is then calculated, giving effect to secured claims, distribution priorities established by the Code that apply in a chapter 7 proceeding and subordination agreements.

The first step in meeting this test is to determine the dollar amount that would be generated from the liquidation of the Debtors' assets and properties in the context of a chapter 7 liquidation case. The total cash available would be the sum of the proceeds (net of transaction costs) from the disposition of the Debtors' assets and the cash held by the Debtors at the time of the commencement of the chapter 7 case. The next step would be to reduce that total by the amount of any claims secured by such assets, the costs and expenses of the liquidation and such additional administrative expenses and priority claims that may result from the termination of the Debtors' business and the use of chapter 7 for the purposes of liquidation. Next, any remaining cash would be allocated to creditors and shareholders in strict priority in accordance with section 726 of the Code. Finally, the present value of such allocations (taking into account the time necessary to accomplish the liquidation) would be compared to the value of the property that is proposed to be distributed under the Plan on the Effective Date.

The Debtors' costs of liquidation under chapter 7 would include the fees payable to a trustee in bankruptcy, as well as those that might be payable to attorneys and other

professionals that such a trustee might engage, plus any unpaid expenses incurred by the Debtors during their chapter 11 cases and allowed in the chapter 7 case. These expenses could include compensation for attorneys, financial advisors, appraisers, accountants and other professionals, and costs and expenses of members of the statutory committee of unsecured creditors appointed by the United States Trustee pursuant to section 1102 of the Code and any other committee so appointed. In addition, claims would arise by reason of the breach or rejection of obligations incurred and executory contracts entered into by the Debtors both prior to, and during the pendency of, the chapter 11 cases.

The foregoing types of claims, costs, expenses and fees and such other claims that may arise in a liquidation case or result from the pending chapter 11 cases would be paid in full from the liquidation proceeds before the balance of those proceeds would be made available to pay pre-chapter 11 priority and unsecured claims.

The following liquidation analysis has been prepared to indicate the net present value that would be allocated to creditors and shareholders (the "Liquidation Value") in strict priority in accordance with section 726 of the Code

Underlying this liquidation analysis are a number of estimates and assumptions that are inherently subject to significant uncertainties. There can be no assurance that the recoveries shown, and Liquidation Value indicated, in this analysis would be realized if the Debtors were, in fact, to undergo such a liquidation

The Debtors have approached this liquidation analysis on an asset liquidation basis because there can be no assurance that the Debtors' FCC licenses would not be revoked by the FCC upon a conversion of these Cases to chapter 7 cases, thereby eliminating the possibility that the Debtors could continue operating and be liquidated as a "going concern" or "going concerns".

The Debtors' liquidation analysis assumes that their assets would be broken up and sold by a chapter 7 trustee or its duly appointed advisors, brokers or liquidators, irrespective of their current use. Some of the Debtors' assets when broken up may not be able to be sold or may realize minimal proceeds. The estimated liquidation value of the Debtors' assets, net of transaction costs and discounted to take account of the estimated time it might take to dispose of such assets, are set forth in the table below.

The costs associated with a chapter 7 liquidation of the Debtors, including the fees that would be associated with a chapter 7 trustee, are anticipated to be significant. Estimates of the major elements of such costs are set forth in the table below.

The estimated amounts of claims secured by the Debtors' assets and the administrative and priority claims that would be required to be paid in a chapter 7 liquidation before any allocation of net proceeds to unsecured creditors and shareholders have been set forth below.

ESTIMATED LIQUIDATION VALUE  
(\$ MILLIONS)  
As of June 30, 1998

<u>PROCEEDS AVAILABLE</u>	
Cash and cash equivalents	\$22.3 <sup>1</sup>
Major non-cash assets at liquidation value <sup>2</sup>	
- FCC licenses	\$86.1
- Radio Transmission Equipment	\$19.7 <sup>3</sup>
- Pagers	\$10.3
- Accounts receivable	\$12.1
- Customer Lists	\$5.3
Other non-cash assets at liquidation value	<u>\$7.8</u>
LIQUIDATION VALUE	\$163.6
Less: Costs associated with liquidation	
- Chapter 7 trustee fees	\$4.7
- Employee costs	\$3.5
- Other liquidation costs	<u>\$4.5</u>
	\$150.9
- Dip facility and professional fee carve-out	<u>\$6.5</u>
- Priority Tax Claims	<u>\$7.5</u>
Available to 1995 Credit Agreement Claims	\$136.9

<sup>1</sup> Comprises book cash and cash equivalents of \$11.6 million and outstanding checks in the amount of \$10.7 million.

<sup>2</sup> Net present value.

<sup>3</sup> Excludes the Tower Assets that were the subject of the Tower Transaction. See Section II.B.4(g).

Less: 1995 Credit Agreement Claims	<u>\$(479.0)<sup>4</sup></u>
Shortfall	<u>\$(342.1)</u>

After consideration of the effects that a chapter 7 liquidation would have on the ultimate proceeds available for distribution to creditors and equity holders in these chapter 11 cases, including (a) the increased costs and expenses of a liquidation under chapter 7 arising from fees payable to a trustee in bankruptcy and professional advisors to such trustee, (b) the erosion in value of the Debtors' assets in a chapter 7 case in the context of the expeditious liquidation required under chapter 7 and the "forced sale" atmosphere that would prevail, (c) the adverse effects on the salability of the Debtors as a result of the departure of key employees and the loss of major customers and suppliers, (d) substantial increases in claims that would be satisfied on a priority basis or on a parity with creditors in the chapter 11 cases, and (e) the substantial time that would elapse before regulatory and other hurdles could be cleared and, therefore, before which creditors would receive any distribution in respect of their claims, the Debtors have determined that confirmation of the Plan will provide each creditor and equity holder with a recovery that is not less than it would receive pursuant to a liquidation of the Debtors under chapter 7 of the Code. The Allowed Claims of Creditors in Classes 1, 2, 3, 4 and 5 will be paid in cash in full under the Plan. There would not be sufficient cash to achieve this result in a liquidation under chapter 7. The holders of Allowed Claims in Class 6 will receive a substantial equity stake in Arch under the Plan; they would receive no distribution in a chapter 7 liquidation.

## 2. Acceptance by Impaired Classes

By this Disclosure Statement, the Debtors are seeking the affirmative vote of each impaired Class of Claims under the Plan that is proposed to receive a distribution under the Plan. Pursuant to section 1126(f) of the Code, a class that is not "impaired" under a plan will be conclusively presumed to have accepted such plan; solicitation of acceptances with respect to any such class is not required. Pursuant to section 1126(g) of the Code, a class of claims or interests that does not receive or retain any property under a plan of reorganization is deemed not to have accepted the plan, although members of that class are permitted to consent, or waive objections, to its confirmation.

Pursuant to section 1124 of the Code, a class is "impaired" unless the plan (a) leaves unaltered the legal, equitable and contractual rights to which the claim or interest entitles the holder thereof, or (b) (i) cures any default (other than defaults resulting from the breach of an insolvency or financial condition provision), (ii) reinstates the maturity of such claim or interest, (iii) compensates the holder of such claim or interest for any damages incurred as a result of any reasonable reliance by such holder on any contractual provision or applicable law entitling such

<sup>4</sup> Represents the principal amount of the 1995 Credit Agreement indebtedness less \$170 million representing the Tower Sale Proceeds paid to the holders of Allowed Class 4 Claims on September 3, 1998.

holder to demand or receive accelerated payments after the occurrence of a default, and (iv) does not otherwise alter the legal, equitable or contractual rights to which the holder of such claim or interest is entitled.

Pursuant to section 1126(c) of the Code, a class of impaired claims has accepted a plan of reorganization when such plan has been accepted by creditors (other than an entity designated under section 1126(e) of the Code) that hold at least two-thirds in dollar amount and more than one-half in number of the allowed claims of such class held by creditors (other than any entity designated under section 1126(e) of the Code) that have actually voted to accept or reject the plan. A class of interests has accepted a plan if the plan has been accepted by holders of interests (other than any entity designated under section 1126(e) of the Code) that hold at least two-thirds in amount of the allowed interests of such class held by interest holders (other than any entity designated under section 1126(e) of the Code) that have actually voted to accept or reject the plan. Section 1126(e) of the Code allows the Bankruptcy Court to designate the votes of any party that did not vote in good faith or whose vote was not solicited or procured in good faith or in accordance with the Code. Holders of claims or interests who fail to vote are not counted as either accepting or rejecting the plan.

### 3. Confirmation Without Acceptance by All Impaired Classes.

Because Classes 7, 8 and 9 are deemed not to have accepted the Plan, the Debtors are seeking confirmation of the Plan as to such Classes, and as to any other Class that votes to reject the Plan, pursuant to section 1129(b) of the Code. Section 1129(b) of the Code provides that the Bankruptcy Court may still confirm a plan at the request of the debtor if, as to each impaired class that has not accepted the plan, the plan "does not discriminate unfairly" and is "fair and equitable".

Section 1129(b)(2)(A) of the Code provides that with respect to a non-accepting class of impaired secured claims, "fair and equitable" includes the requirement that the plan provides (a) that each holder of a claim in such class (i) retains the liens securing its claim to the extent of the allowed amount of such claim and (ii) receives deferred cash payments at least equal to the allowed amount of its claim with a present value as of the effective date of such plan at least equal to the value of such creditor's interest in the debtor's interest in the property securing the creditor's claim, (b) for the sale, subject to section 363(k) of the Code, of the property securing the creditor's claim, free and clear of the creditor's liens, with those liens attaching to the proceeds of the sale, and such liens on the proceeds will be treated in accordance with clauses (a) or (c) hereof, or (c) for the realization by the creditor of the "indubitable equivalent" of its claim.

Section 1129(b)(2)(B) of the Code provides that with respect to a non-accepting class of impaired unsecured claims, "fair and equitable" includes the requirement that (a) the plan provide that each holder of a claim in such class receives or retains property of a value as of the effective date equal to the allowed amount of its claim, or (b) the holders of claims or interests in classes that are junior to the claims of the dissenting class will not receive or retain any property

under the plan on account of such junior claim or interest.

Section 1129(b)(2)(C) of the Code provides that with respect to a non-accepting class of impaired equity interests, "fair and equitable" includes the requirement that (a) the plan provides that each holder of an impaired interest in such class receives or retains property of a value as of the effective date equal to the greatest of (i) the allowed amount of any fixed liquidation preference to which such holder is entitled, (ii) any fixed redemption price to which such holder is entitled, and (iii) the value of such interest, or (b) the holders of all interests that are junior to the interests of the dissenting class will not receive or retain any property under the plan on account of such junior interest.

The Debtors believe that the Plan does not discriminate unfairly against, and is fair and equitable as to, each impaired Class under the Plan.

#### D. Voting Instructions

As noted previously, the Plan divides Claims (excluding administrative expenses and priority tax claims) and Interests into nine Classes and sets forth the treatment afforded each Class. Claimants in Classes 1, 2 and 3 are not impaired under the Plan. Accordingly, holders of Claims in such Classes are conclusively presumed to have accepted the Plan and are not offered the opportunity to vote. The holders of the Claims and Interests in Classes 7, 8 and 9 are impaired but are not receiving or retaining any property under the Plan and are therefore conclusively presumed not to have accepted the Plan and are not offered the opportunity to vote. Because claimants in Classes 4, 5 and 6 are impaired and are receiving distributions under the Plan, the holders of Claims in such Classes ("Voting Claims") are entitled to vote on the Plan.

If you hold a Voting Claim, your vote on the Plan is important. If you hold such a Voting Claim, a Ballot to be used for voting to accept or reject the Plan is enclosed with this Disclosure Statement. Completed Ballots should either be returned in the enclosed envelope or sent, by hand delivery, first class mail postage prepaid or recognized overnight courier, to:

Bankruptcy Services, Inc.  
70 E. 55th Street, 6th Floor  
New York, New York 10022-3222  
Attn: Kathy Gerber

Facsimile transmission of Ballots will not be accepted

To the extent that any of the Debtors' securities are held in the name of an entity (the "nominal holder") other than that of the beneficial holder of such security, and to the extent that such beneficial security holder is entitled to vote on the Plan pursuant to section 1126 of the Code, the Debtors will provide for reimbursement, as an administrative expense, of all the reasonable expenses of the nominal holder in distributing the Plan, Disclosure Statement, Ballots and other Plan materials to said beneficial security holder. Nominal holders will either forward

the original ballots or prepare master ballots in accordance with the terms of the Disclosure Statement Approval Order attached hereto as Exhibit C

In the event that any Claim is disputed as of the Plan voting period, then, pursuant to Bankruptcy Rule 3018(a), the holder of such disputed claim may petition the Bankruptcy Court, after notice and hearing, to allow the Claim temporarily for voting purposes in an amount that the Bankruptcy Court deems proper.

BALLOTS OF CLAIM HOLDERS IN CLASSES 4, 5 AND 6 MUST BE ACTUALLY RECEIVED BY BANKRUPTCY SERVICES, INC. ON OR BEFORE \_\_\_\_ M., NEW YORK CITY TIME, ON \_\_\_\_\_, 1998. ANY BALLOTS RECEIVED AFTER SUCH TIME WILL NOT BE COUNTED. ANY BALLOT EXECUTED BY A PERSON NOT AUTHORIZED TO SIGN SUCH BALLOT WILL NOT BE COUNTED.

BY ENCLOSING A BALLOT, THE DEBTORS ARE NOT REPRESENTING THAT YOU ARE ENTITLED TO VOTE ON THE PLAN. BY INCLUDING A CLAIM AMOUNT ON THE BALLOT, THE DEBTORS ARE NEITHER ACKNOWLEDGING THAT YOU HAVE AN ALLOWED CLAIM IN THAT AMOUNT NOR WAIVING ANY RIGHTS THEY MAY HAVE TO OBJECT TO YOUR VOTE OR CLAIM.

IF YOU HAVE ANY QUESTIONS REGARDING THE PROCEDURES FOR VOTING ON THE PLAN, CONTACT BANKRUPTCY SERVICES, INC., 70 E. 55TH STREET, 6TH FLOOR, NEW YORK, NEW YORK, 10022-3222, (212) 376-8494, ATTENTION: DIANE M. ROCANO.

## IX. OTHER MATTERS

### A. Voidable Transfer Analysis

#### 1. Fraudulent Transfers.

Generally speaking, fraudulent transfer law is designed to avoid two types of transactions: (a) conveyances that constitute "actual fraud" upon creditors; and (b) conveyances that constitute "constructive fraud" upon creditors. In the bankruptcy context, fraudulent transfer liability arises under sections 548 and 544 of the Code. Section 548 permits a bankruptcy trustee or debtor-in-possession to "reach back" for a period of one year and avoid fraudulent transfers made by the Debtors or fraudulent obligations incurred by the Debtors. Section 544 permits a trustee or debtor-in-possession to apply applicable state fraudulent transfer law. Assuming that New Jersey state law were to apply, a bankruptcy trustee or debtor-in-possession could challenge conveyances, transfers or obligations made or incurred by the Debtors within the past four years or one year, depending on the type of transfer. However, under section 544 of the Code, it is necessary to establish that, at the time of the challenged conveyance or obligation, there in fact existed a creditor whose claim remained unpaid as of the Petition Date.



The Debtors are not aware of any transfer during the applicable limitation period that might reasonably be characterized as a fraudulent conveyance, assuming the Debtors were insolvent at such time.

2. Preferences.

Under federal bankruptcy law, a trustee in bankruptcy may avoid transfers of assets of the debtor as a "preferential transfer". To constitute a preferential transfer, the transfer must be (a) of the debtor's property, (b) to or for the benefit of a creditor, (c) for or on account of an antecedent debt, (d) made while the debtor was insolvent, (e) made within 90 days before the filing of a bankruptcy petition or made within one year if to or for the benefit of an "insider" and (f) a transfer that enables the creditor to receive more than it would receive under a chapter 7 liquidation of the debtor's assets. The Code creates a rebuttable presumption that a debtor was insolvent during the 90 days immediately prior to the filing of the bankruptcy petition.

Within the 90-day period immediately preceding the Petition Date, substantial payments were made by the Debtors for the following categories of expenses:

- (a) outside services (legal, accounting, financial advisors and consulting);
- (b) local, state and federal taxes (including property, sales, gross receipts and employee withholding);
- (c) severance and other employee-related payments; and
- (d) trade vendor and related, miscellaneous obligations.

The Debtors have not conducted a full analysis of the payments described above to determine the propriety of such payments or their susceptibility to avoidance as preferences. A complete analysis would include a review of the amount of payment, the nature of goods or services or other obligations that gave rise to the payment in each of the above-described categories of payments and the availability of the various statutory defenses to preference liability to the recipients of such payments. In the Debtors' opinion, while the aggregate amount of such payments is not insignificant, most of such payments were appropriately paid in the ordinary course of operations, and the recapture of any individual amount would not materially change the proposed recovery to the Debtors' creditors pursuant to the Plan.

B. Certain Effective Date Bonuses

As noted above, the Debtors compensate many of their professionals and the professionals of the Committee on an hourly or monthly basis. The compensation package approved by the Bankruptcy Court for Blackstone, the Debtors' financial advisors, also provides for a significant lump-sum payment to be made to Blackstone on the Effective Date. This

Effective Date payment ranges from 0.3% to 0.7% of the Debtors' reorganization value, with the percentage payment increasing as reorganization value increases. The compensation package approved by the Bankruptcy Court for Houlihan Lokey Howard & Zukin ("Houlihan"), financial advisors to the Committee, provides that on the date that distributions are received by unsecured creditors, Houlihan may receive a lump-sum deferred compensation payment. This deferred payment will only be paid if the distribution to unsecured creditors exceeds approximately \$84 million, and is based on the amount by which the distribution to unsecured creditors under the Plan exceeds a number that is approximately \$84 million. In addition, Chilmark Partners, the financial advisors to the steering committee of the Pre-Petition Lenders, is entitled to a payment of \$500,000 on the Effective Date.

Moreover, on June 4, 1997, the Bankruptcy Court approved the establishment of an Effective Date Incentive Program. This program is intended to create incentives for and to reward various members of the Debtors' management for the unique and extraordinary demands placed on them and the contributions they have made to the resolution of the Debtors' restructuring and bankruptcy efforts. The Debtors believe that under the circumstances, the payments to be made under the Effective Date Incentive Program are fair and reasonable. At reorganization values up to \$1 billion, the Board of Directors has authority to pay up to \$2.8 million to the Debtors' management, to be distributed in accordance with the Effective Date Incentive Program. In addition, at reorganization values up to \$1 billion, Ronald Grawert, the Debtors' Chief Executive Officer, will be entitled to a payment under the Effective Date Incentive Program of \$1.5 million. Finally, at reorganization values up to \$1 billion, Alvarez & Marsal, Inc. will be entitled, subject to final approval by the Bankruptcy Court, to an Effective Date Incentive Program payment equal to .2% of reorganization value.

## X. RECOMMENDATION

The Debtors believe that confirmation of the Plan is preferable to the available alternatives because it provides a greater and more timely distribution to Creditors than would otherwise result. In addition, any alternative to confirmation of the Plan could result in extensive delays and increased administrative expenses resulting in potentially smaller distributions to the holders of Claims in the Cases. The Committee supports the Plan and will recommend to all Unsecured Creditors that they vote to accept the Plan. The Standby Purchasers also support the Plan and have agreed to vote in favor of the Plan.

## XI. CONCLUSION

The Debtors urge all holders of Claims that are or may be impaired under the Plan to vote to accept the Plan and to evidence such acceptance by returning their Ballots so that they will be timely received.

Respectfully submitted this 18th day of September, 1998.

MOBILEMEDIA COMMUNICATIONS, INC.  
MOBILEMEDIA CORPORATION  
MOBILEMEDIA COMMUNICATIONS, INC. (CALIFORNIA)  
MOBILEMEDIA DP PROPERTIES, INC.  
MOBILEMEDIA PCS, INC.  
DIAL PAGE SOUTHEAST, INC.  
RADIO CALL COMPANY OF VA. INC.  
MOBILEMEDIA PAGING, INC.  
MOBILE COMMUNICATIONS CORPORATION OF AMERICA  
MOBILECOMM OF THE SOUTHEAST, INC.  
MOBILECOMM OF THE NORTHEAST, INC.  
MOBILECOMM NATIONWIDE OPERATIONS, INC.  
MOBILECOMM OF TENNESSEE, INC.  
MOBILECOMM OF THE SOUTHEAST PRIVATE CARRIER  
OPERATIONS, INC.  
MOBILECOMM OF THE SOUTHWEST, INC.  
MOBILECOMM OF FLORIDA, INC.  
MOBILECOMM OF THE MIDSOUTH, INC.  
FWS RADIO, INC.  
MOBILECOMM OF THE WEST, INC.

Debtors and Debtors-in-Possession

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